ECONOMIC COMMENTARY

How the Current Slowdown is Affecting Alberta's Municipalities – June Update

June 14, 2016

Highlights:
The current economic slowdown has resulted in rapidly rising unemployment in Alberta. The hardest hit municipalities are those that depend on the oil and gas services sector which saw the largest employment losses during the past year or on sectors that in turn depend on the oil and gas sector such as construction, manufacturing and engineering services.

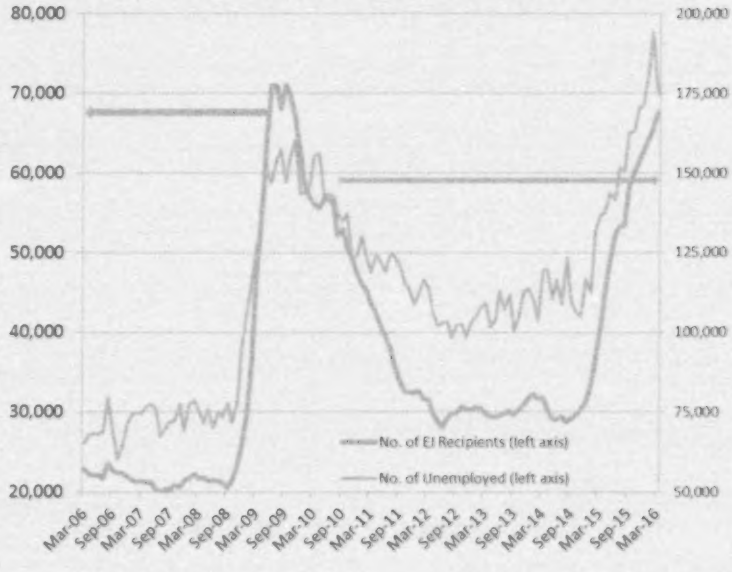
Alberta
Government

Overview

Alberta slipped into recession last year and is still in recession according to the latest economic indicators, mainly as a result of sharply lower oil and gas prices. According to Statistics Canada's latest provincial GDP estimates the Alberta economy contracted by a larger than expected 4.0% in 2015. All private sector forecasters expect Alberta's GDP to decline again this year. The recession has caused Alberta's unemployment rate to rise from 4.4% in December 2014 to 7.2% in April as companies in the manufacturing, construction, engineering and architectural services and especially the oil and gas services sectors have been cutting back. Between March 2015 and March 2016, the number of payroll jobs in the oil and gas services sector fell by about one-third, from 66,910 in March 2015 to 45,708 in March 2016[1], while employment fell by between 11% and 14% in the manufacturing, construction, and engineering and architectural services sectors.

Unfortunately, there is a scarcity of sub-provincial indicators that show how Alberta's municipalities are doing during this recession. The only indicator that is both fairly timely and available for municipalities is the number of Employment Insurance (EI) recipients receiving regular income benefits. The number of EI recipients is a useful unemployment indicator as EI covers eligible individuals who lose their jobs and who are available for work and are able to work, but cannot find a job.

Number of EI Recipients and Unemployed in Alberta



Source: Statistics Canada

We have released two previous commentaries that examined the trends in the number of EI recipients in a number of Alberta municipalities. Since then the number of unemployed and EI recipients has continued to grow and stood about 8% higher in March than in November, which explains the need for this update.
At the Alberta level the number of recipients has risen from 31,220 in December 2014 (when the recession probably started) to 67,600 in March 2016 while the number of unemployed rose from 116,800 to 174,700 over the same period[2].

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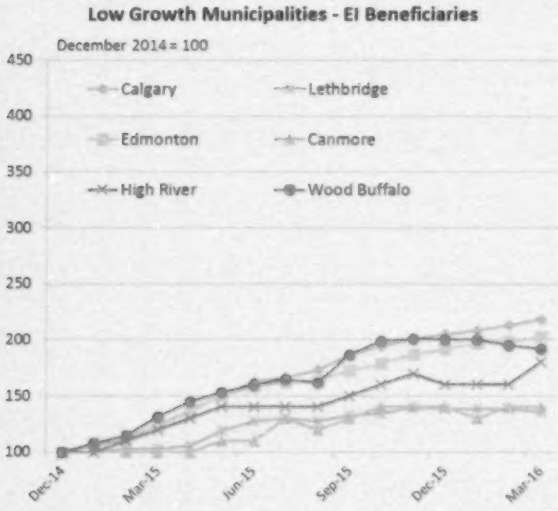
[1] Source: Statistics Canada's Survey of Employment, Payrolls and Hours

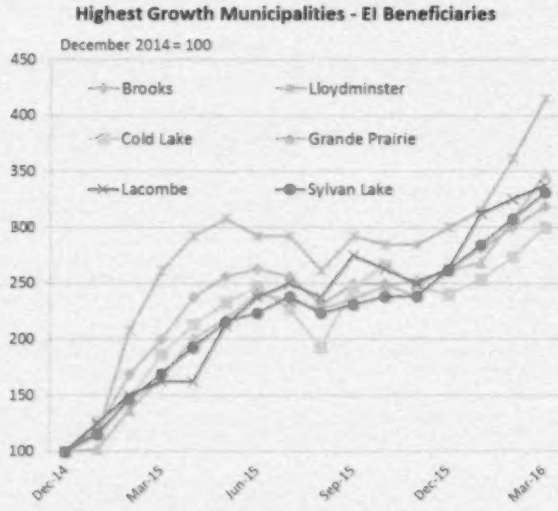
[2] There is always a certain proportion of unemployed people who do not qualify for benefits. Some unemployed people have not contributed to the program because they have not worked in the past 12 months or their employment is not insured. Other unemployed people have contributed to the program but do not meet the eligibility criteria, such as workers who left their job voluntarily or those who did not accumulate enough hours of work to receive benefits (source: http://www.statcan.gc.ca/daily-quotidien/160519/dq160519b-eng.htm)

EI Trends in Alberta's Largest Municipalities (Seasonally Adjusted Estimates)

Statistics Canada provides estimates for the numbers of EI recipients for most Alberta communities. However, seasonally adjusted estimates are only released on a regular basis for the 18 largest communities. As there is a great deal of seasonal variation in the estimates our regional analysis will start by first examining the trends in these 18 communities. Whereas in the next section EI estimates for individual municipalities are discussed, the seasonally adjusted estimates for Edmonton and Calgary in this section are for the larger metropolitan areas, for instance metropolitan Edmonton includes many surrounding municipalities such as St. Albert and Strathcona County.



Source: Statistics Canada, seasonally adjusted estimates



Source: Statistics Canada, seasonally adjusted estimates

The six municipalities that had the largest per cent increases in EI recipients between December 2014 and March 2016 saw the numbers more than double during the first half of 2015. In Lloydminster the number of EI recipients more than quadrupled over the entire period: they tripled in the first half of 2015; then stabilized for the rest of 2015; before another surge in the first quarter of 2016. Most other high growth communities had similar growth patterns but their overall growth rates were lower at between 200% and 250% between December 2014 and March 2016.

The six communities with the smallest increases during the past 15 months include the metropolitan areas of Edmonton and Calgary, three communities with little dependence on oil and gas, namely Lethbridge, Canmore and High River, and surprisingly also Wood Buffalo. Although oil sands investment fell by more than one-third last year and jobs have been lost in the Wood Buffalo region, many of these lost jobs were occupied by workers from other parts of the province and from other provinces, and would not show up in Wood Buffalo's EI numbers. Moreover, oil sands production remains strong and therefore not many jobs have been lost yet at existing production facilities – just at

new projects. The number of EI recipients in the Wood Buffalo region is expected to rise sharply in May and June because of the wildfires in the region.

EI Trends in Alberta Municipalities (Not Seasonally Adjusted)

Because Statistics Canada rounds all EI estimates to the nearest 10 and because there is considerable volatility in the estimates, especially for the smaller centres, we compare the average number of recipients during the most recent three-month period (January to March) to the average number for the same period of 2015 in the remainder of this commentary. The below estimates are not seasonally adjusted and therefore only year-over-year growth rates are presented. Another difference with the previous section is that the estimates for Edmonton and Calgary only cover the cities and other municipalities that are part of the above metropolitan areas of Edmonton and Calgary are now shown separately.

Table 1 presents the EI trends for Alberta's top 20 municipalities (on an EI basis). For Alberta's two largest municipalities, Calgary and Edmonton, which together account for 53% of the total number of EI recipients in Alberta, the numbers increased by 82% and 61%, respectively, on a year-over-year basis. By comparison, the number increased by 76% in all of Alberta. The reason for the lower increase in Edmonton than in Calgary is that the number of unemployed people has grown much more in Calgary than in Edmonton (according to the Labour Force Survey).

Table 1 - Top 20 Municipalities on EI Basis

	Average number of EI recipients January 2015 to March 2015	Average number of EI recipients January 2016 to March 2016	Per cent Change
Calgary	12,000	21,807	82%
Edmonton	11,033	17,787	61%
Red Deer	1,090	2,217	103%
RM of Wood Buffalo	1,257	2,093	67%
Grande Prairie	463	1,370	196%
Strathcona County	650	1,320	103%
Medicine Hat	800	1,317	65%
Airdrie	627	1,180	88%
Lethbridge	790	1,117	41%
St. Albert	500	850	70%
Leduc	380	803	111%
Spruce Grove	377	673	79%
Fort Saskatchewan	300	523	74%
Lloydminster	250	503	101%
Parkland County	303	490	62%
Okotoksk	263	490	86%
Cold Lake	243	440	81%
Sylvan Lake	197	420	113%
Stony Plain	240	393	64%
Brooks	217	383	76%

Among the 10 largest municipalities Grande Prairie registered the largest increase of 196%. This large increase can be explained by the large share of employment that the oil and gas services sector accounts for (11% in 2011). According to the 2011 National Household Survey, the most recent source to include employment estimates at the municipal level, the oil and gas services sub-sector accounted for 2.9% of all jobs in Alberta. There are also a large number of construction firms in Grande Prairie. A large increase was also registered in Red Deer (up 103%) where oil and gas services accounted for 7.2% of total employment and in Strathcona County (also up 103%) where many construction firms are located. In Lethbridge, EI recipients rose only 41% because the oil and gas sector accounts for a very small share of employment. The number of EI recipients grew by 67% in the Wood Buffalo region, the centre of oil sands production.

In Table 2, the municipalities with more than 100 EI recipients in 2016 and with the largest year-over-year increases are shown. Most of these municipalities are heavily dependent on the oil and gas sector and on the oil and gas services sub-sector in particular.

Table 2 – Largest Increases in EI Recipients

	Average number of EI recipients January 2015 to March 2015	Average number of EI recipients January 2016 to March 2016	Per cent Change
Grande Cache	50	160	220%
Drayton Valley	117	313	168%
Grande Prairie County	127	337	165%
Peace River	73	193	164%
Wetaskiwin County	47	120	155%
Bonnyville MD	73	183	151%
Leduc County	107	267	150%
Grande Prairie	563	1,370	143%
Edson	70	170	143%
Bonnyville	140	323	131%
Penhold	50	117	134%
Beaumont	123	283	130%
Vermilion River County	67	153	128%
Sundre	67	153	128%
Whitecourt	130	293	125%
Ponoka	83	187	125%
Sylvan Lake	197	420	113%
Leduc	380	803	111%
Chestermere	150	317	111%
Lacombe	143	300	110%
Rocky View County	173	360	108%
Olds	90	183	103%
Red Deer	1,090	2,217	103%
Strathcona County	650	1,320	103%
Lloydminster	250	503	101%
Athabasca	60	120	100%

All of the communities in Table 2, with the exception of Chestermere, Rocky View, Strathcona County and Athabasca, have higher shares than Alberta's 2.9% share, ranging from 3.3% in Ponoka to 13.1% in Bonnyville. In Grande Cache, the number of EI recipients has risen 220% over the past year because of the closing of the Grande Cache Coal mine in December. In Drayton Valley, Grande Prairie County, Peace River, the Municipal District of Bonnyville, Wetaskiwin County and the County of Leduc the number of EI recipients rose at least 150%.

A number of the above listed municipalities, such as Leduc, the County of Leduc and Strathcona County, are also heavily dependent on the oil and gas field manufacturing sectors: metal fabrication and machinery. Both of these sectors also saw sharp employment losses during the past year. Other municipalities, such as Chestermere, Beaumont, Athabasca and the Bonnyville MD, are home to a relatively large number of construction firms.

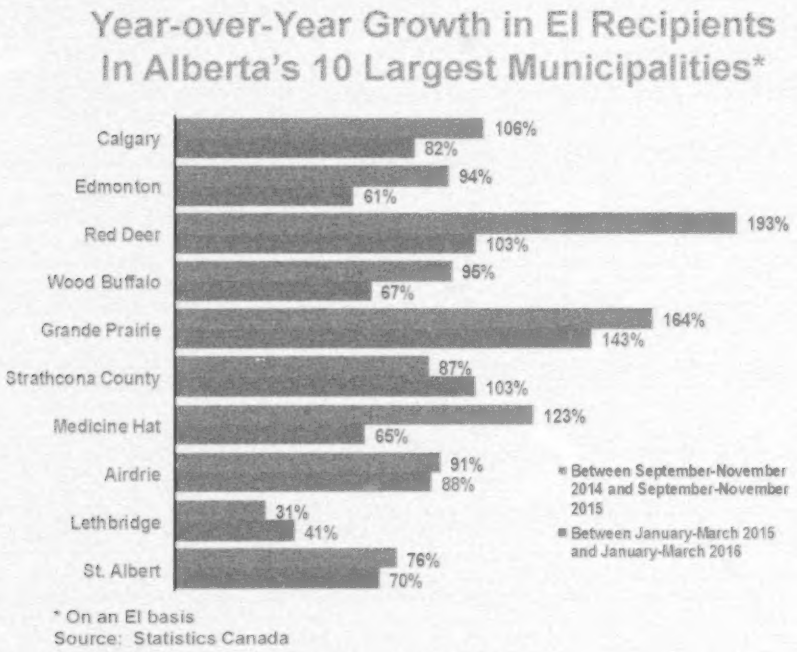
Between the January to March 2015 period and the same period of 2016, many of the municipalities registering the smallest increases in the number of EI recipients (Table 3) are those with a relatively low share of workers in the oil and gas services sector. For instance, in Crowsnest Pass, Jasper, Barrhead and Lethbridge the number of EI recipients rose 18%, 25%, 33% and 41%, respectively, and their oil and gas services sector shares were only 0.6% or less in 2011.

Table 3 – Smallest Increases in EI Recipients

	Average number of EI recipients January 2015 to March 2015	Average number of EI recipients January 2016 to March 2016	Per cent Change
Crowsnest Pass	87	103	18%
Jasper	80	100	25%
St. Paul County	117	150	28%
Barrhead	97	130	34%
Slave Lake	117	157	34%
Vegreville	87	117	34%
Smoky Lake County	80	110	38%
Lethbridge	790	1,117	41%
Canmore	127	180	42%
Hinton	130	187	44%
Blackfalds	133	193	45%
Coaldale	87	127	46%
Opportunity No. 17	127	187	47%
Westlock	90	133	48%
Lac Ste Anne County	100	150	50%

In the below chart we examine how much the growth rates in the largest 10 municipalities (on an EI basis) have changed over the past four months, i.e. the year-over-year growth rates from the previous commentary which covered the months of September through November are compared to those of the most recent time period of January through March. The biggest changes in these growth rates were noted for Medicine Hat, where the growth rate was 123% for September through November vs

65% for January through March and for Red Deer (from 193% to 103%). Growth rates have actually risen in Strathcona County (from 87% to 103%) and in Lethbridge (from 31% to 41%).



In summary, even in the first quarter of 2016, the number of unemployed and of EI recipients in Alberta continued to rise. As the above discussion shows most Alberta municipalities have been impacted by the economic slowdown which resulted from falling oil and gas prices and declining oil and gas investment. The hardest hit municipalities are generally those that are heavily dependent on the oil and gas services sector. We can expect the number of unemployed and of EI recipients to continue to rise over the next few months but probably at a slower pace as employment in the oil and gas services sector may not decline as much as in the past. However, the recession is now also impacting employment in a number of other sectors. EI numbers in Wood Buffalo and surrounding areas are expected to rise sharply in May and June because of the wildfires.